NEWSLETTER

August 2021

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"If opportunity doesn't knock, build a door"

DB CHARTERED ACCOUNTANTS LTD

In this newsletter we cover the updates on sick leave entitlements, PIE funds, the new 39% tax rate, the effect of the Covid wage subsidy, the impact of depreciation recovered and the new FBT rates.

NEW SICK LEAVE ENTITLEMENTS

From the 24th of July 2021 new sick leave entitlements have been introduced to increase employee's entitlement to paid sick leave. The purpose of the change is to ensure staff are taking enough time to recover from illness or injury.

The main points you need to know:

- Sick leave entitlement has increased from 5 days to 10 days per year.
- Employees become entitled to the extra five days <u>when they reach their next entitlement date</u> being either 6 months after they start the job or 12 months after they were last entitled to sick leave.
- Employees can accumulate up to 20 days of sick leave. Employees can carry over 10 days of unused sick leave in to the next year.
- Payroll systems will need to be updated to reflect the increase in sick leave.
- It is best practice to update employment agreements to reflect the sick leave entitlement changes however new minimum entitlements will still apply.
- Paid sick leave includes caring for a sick or injured spouse, partner, dependent child or other dependent individual.
- You must pay an employee taking sick leave the same as if they had worked a normal day.

You are not limited to the new sick leave minimum requirements. An employer can:

- Let employees who have worked for less than six months take sick leave in advance.
- Choose to let employees carry over sick leave beyond the 20 day requirement.
- Offer more than 10 days sick leave.

The new sick leave entitlements also apply to casual employees after 6 months of starting work if they have worked an average of at least 10 hours a week and at least one hour a week or 40 hours a month.

PORTFOLIO INVESTMENT ENTITIES (PIE) FUNDS

PIE funds are investments where the entity pays tax on behalf of the investor with the intention that no further tax will be payable provided that the correct prescribed investor rate (PIR) has been applied.
For 2021 and future income years an IRD calculation will be made to check the PIE tax is correct. If your correct PIR has not been applied to all your PIE income for the year, the under or overpayment is then included in your income tax assessment. This adjusts your tax liability or refund due.

What Prescribed Investor Rate (PIR) Applies To Me?

To determine the correct PIR, you need to look at what your taxable income and your PIE income were for the last two income years, before the tax year in which the PIR is to be applied. If you have considered the two previous income years and would qualify for two different rates, the PIR applied is the lower rate.

Your taxable income was …	and your taxable income plus your PIE income/loss was …	before the relevant tax year	PIR
$0 - $14,000	$0 - $48,000	Either year	10.5%
	$48,001 - $70,000	Either year	17.5%
$14,001 - $48,000	$0 - $70,000	Either year	17.5%
$48,001 or More	Any amount	Each year	28%
Any amount	$70,001 or more	Each year	28%

Change of Residency

If you stop being a New Zealand tax resident, you should have a PIR of 28% from the date you leave New Zealand. You need to let your provider know as soon as possible.
New residents should include their worldwide income when working out their PIR. You may choose not to account for worldwide income if you expect income in either of your first 2 resident years will be much lower than your total income from previous years.

JOKE

There was a safety meeting at work today. They asked me “what steps would you take in the event of a fire?”. “Big ones” was the wrong answer.

THE 39% TAX RATE AND PROVISIONAL TAX PAYMENTS

From 1 April 2021 (2022 income tax year) individuals will be taxed at 39% on any earnings over $180,000.

There is no change to how the 2022 provisional tax payments are calculated. Provisional tax payments will be based on either the 2020 residual income tax (RIT) assessment plus standard uplift of 10% or, if your 2021 tax return has been filed, your 2021 RIT assessment plus 5%.

For higher income earners these provisional tax payments may not be enough to cover any increase in tax, due to the 39% rate.

A taxpayer may also need to consider IRD use of money interest (UOMI).

Once an individual has RIT over $60,000 they will be subject to UOMI. Under the new tax rate an individual will be subject to UOMI if they receive untaxed income of more than $204,000 (for example a shareholder salary).

If you are a high earning individual please contact us to discuss your specific situation as total income will need to be considered when determining what extra provisional tax payments will need to be made in order to reduce exposure to UOMI.

EFFECT OF WAGE SUBSIDY - INDIVIDUAL TAX RETURNS

Covid Wage Subsidies received by shareholder employees, partners in a partnership or sole traders are required to be included as income in their personal income tax returns.

Sole Traders & Partners in a Partnership – the wage subsidy received is added to the total income received in the personal income tax returns. This becomes part of the individuals taxable income meaning that tax will be payable on the subsidy received (much like an employee who will have had PAYE deducted when they were paid the subsidy).

Shareholder Employees- the treatment of a wage subsidy received by a company on behalf of a shareholder-employee is treated in one of two ways:

1. If regular wage payments subject to PAYE are made, the 'wages' paid to the employee are taxable in the usual way or,
2. A shareholder salary is required to be declared at the end of the income year and this must include the full amount of the subsidy received – even if the Company is in a loss position. The wage subsidy received will be included in the shareholders personal income tax return and taxed at their marginal tax rate.

For any entity the subsidy does not form part of the business taxable profit. If the entity has a loss for the year, the wage subsidy will still be declared as taxable income in the individual tax return.

SALE OF PROPERTY – IMPACT OF DEPRECIATION RECOVERED

From 1 April 2020 owners of commercial properties are able to again claim depreciation on buildings. Residential property owners are still unable to claim depreciation on buildings.

Prior to April 2011 (10 years ago) commercial and residential property owners were able to claim depreciation on buildings – however the ability to claim building depreciation was removed from the 2012 income year onwards.

Taxpayers still need to be aware that where depreciation has previously been claimed on a building, or where it is claimed on a commercial property going forward, there is likely to be a depreciation recovery calculation which is taxable in the year of sale.

As an example: A property is purchased in 2008 for $400,000 (Land value $140,000, Building Value $260,000). The depreciation claim for the 2008 – 2012 income years will have been $26,000 (2008-2012 = 5 years @ 2% depreciation per year = $26,000).

If the property is sold for more than book value, depreciation previously claimed as an expense, will be treated as income in the year of sale.

If the property sells for $900,000 in August 2021 the depreciation claimed of $26,000 becomes taxable income in the 2022 income year. The capital again of $500,000 is still non-taxable (if a residential property it has been owned for longer than 5 years – if purchased after March 2021 needs to be held for 10 years for capital gains to be tax free).

This will increase the annual tax position of the shareholder (if the annual tax payable for the taxpayer is over $60,000 this will also incur IRD use of money interest costs). We recommend taxpayers in this position set aside enough funds to cover this tax when it falls due. We can advise on this when required.

BOOK REVIEW

A RICHER YOU – HOW TO MAKE THE MOST OF YOUR MONEY
M HOLM

Mary, for a number of years has provided financial advice through her Q & A column in the NZ Herald. This book records a number of the letters she has received and her responses based on a number of financial themes. Themes include investment basics, where to invest, investment strategies, planning for retirement and other personal and family (non-investment) decisions.

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It also provides ideas on how to determine the amount of funds needed once getting to retirement (which may be a while away) as well as an investment profile once retired.
The book highlights that investing is a long-term programme and the book has a number of ideas on how to get good returns over the long term and to accept that volatility is part of the mix while keeping an eye on the long term goal.

NEW FBT RATES FROM 1 APRIL 2021

The new 39% personal income tax rate will apply to income earned by individuals over $180,000 from 1 April 2021. As a result of this new tax rate, the FBT (Fringe Benefit Tax) rates will also increase. Employers will need to apply the new FBT rates, even if the employer has no employees earning over $180,000.
Fringe benefits can be attributed to individual employees and taxed at a rate appropriate to the marginal tax rate of the employee, or else FBT can be paid at a flat rate. The flat rate of FBT is increasing from 49.25% to 63.93% from 1 April 2021.

Gross Income	New FBT Rate
$0 - $12,530	11.73%
$12,531 - $40,580	21.21%
$40,581 - $55,980	42.86%
$55,981 - $129,680	49.25%
$129,681 Upwards	63.93%

If you are currently paying FBT at the current flat rate of 49.25% the FBT cost will increase by 30%. However, employers can minimize the increase in FBT by performing an FBT attribution calculation in the final FBT quarter (1 January to 31 March annually). This means fringe benefits over the course of the year are taxed at a rate based on the income level of each employee. Their income level is determined after taking into account the value of the benefits received and their employment income, rather than using the single FBT rate option.

IMPORTANT TAX DATES

20 August - PAYE Payment due – Payday returns to be filed 2 days after pay day
30 August – 2022 (1st Instalment) Provisional Tax.
June/ July 2021 (2 monthly March) GST Return Due.
20 September - PAYE Payment due – Payday returns to be filed 2 days after pay day
20 October - PAYE Payment due – Payday returns to be filed 2 days after pay day
28 October - 2022 (1st Instalment) Provisional Tax (6 monthly payers).
April-September 2021 (6 monthly) GST Return Due.
15 January - 2022 Provisional Tax Due (2nd instalment) October/November GST Return Due
7 February - 2021 Terminal Tax due (if no extension of time with IRD)

STAFF UPDATE

We recently welcomed Katie to the team who started with us at the end of April.

Thanks from the team at DB Chartered Accountants Ltd: Elaine, David, Gaylene, Karen, Kathryn, Katie, Pam & Tyler

If you would like to discuss anything mentioned in our newsletter please contact us at:

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